



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 09, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Brady National Bank
Charter Number 7827**

**101 S. Blackburn
Brady, TX 76825**

**Comptroller of the Currency
ADC - Austin
8310 Capital Of Texas Highway North, Suite 250
Austin, TX 78731**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with the safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION'S CRA RATING

This institution is rated Outstanding.

Lending performance for Brady National Bank (BNB) is outstanding given its size, financial condition, and known credit needs of its assessment area (AA).

- BNB's lending performance exceeds the standard for satisfactory performance. The bank's loan-to-deposit (LTD) ratio has averaged 68% during the evaluation period, significantly exceeding the local peer bank average of 45.1%.
- A substantial majority of BNB's loans, 88% of the number and 70% of the dollar volume, are in the bank's AA.
- BNB's distribution of loans to individuals of varying incomes and to businesses and farms of different sizes exceeds the standard for satisfactory performance, given the demographics of the AA.
- The geographic distribution of loans in BNB's AA exceeds the standard for satisfactory performance.
- There have been no complaints with respect to BNB's CRA performance since the 1997 CRA Performance Evaluation.

DESCRIPTION OF INSTITUTION

BNB is a \$54 million community bank located in Brady, Texas. Brady, the county seat of McCulloch County, is located approximately 115 miles northwest of Austin. The bank is a wholly-owned subsidiary of Texas Country Bancshares, a local three-bank holding company. BNB has one location, including a drive-through facility, which is located in downtown Brady. The bank has two automated teller machines (ATMs) located in and adjacent to convenience stores on major thoroughfares.

BNB offers customers full banking services as well as insurance products and brokerage services. Customers are provided 24-hour banking service through the Personal Access Line (PAL) and Internet Banking (IB). PAL is a telephone audio response system, which allows customers to obtain account balance information and transfer funds between accounts. In March 2000, IB was introduced, which provides customers access to account balance information, transfers of funds, and Bill Pay.

The bank's primary competition includes another locally owned bank and a branch of a Bryan, Texas federal savings bank. Also competing for the consumer loan base are two finance companies and a regional insurance firm. BNB's primary focus is to promote economic development both in Brady and in McCulloch County through its lending programs and active community involvement.

Various loan products offered include residential mortgages, home improvement, commercial, agricultural related, and consumer loans. Total loans as of March 31, 2002, amount to \$38.6 million, which comprise 71% of total assets. The following table reflects a detailed breakdown of BNB's loan portfolio.

Loan Type	Dollar Amount \$ (000)	% of Total Loans
Real Estate (RE) Farmland	11,563	29.9
RE Residential (1-4)	9,033	23.4
RE Nonfarm Nonresidential	4,163	10.8
Agriculture Production	3,289	8.5
Commercial and Industrial	6,279	16.2
Consumer	4,196	10.8
Other	137	0.4
Total	38,660	100.0%

BNB's executive officers are actively involved in assessing and meeting community needs through participation and support of local business development ventures. Their efforts have been pivotal in the development of two recent ventures. The Sagebrush Apartments, a 60-unit low- to medium-income (LMI) housing complex which is currently under construction, was made possible by BNB's support in the form of strategic planning assistance, financial counseling, and the building of community and political support within the community. Financially, BNB provided a bridge loan to facilitate the permanent financing of Sagebrush. Additionally, BNB officers have been pivotal in the design and support of a matched funding program, which uses Brady tax receipts that are matched by funds from Centex Certified Development Corporation (an Austin-based small business investment corporation), to offer small business loans to local businesses. Since the program's inception in October 2001, three small business loans totaling \$35,000 have been originated. BNB officers have been active in supporting local businesses that supply needed community services and creating local jobs.

Based on its financial condition, resources, the local economy, product offerings, and competition, BNB has the ability to meet the various credit needs in its community. No legal impediments or other factors hinder the bank's ability to provide credit in its AA. BNB received an **"Outstanding"** rating at the previous CRA examination conducted May 1997. Since the prior evaluation, there have been no complaints relating to the bank's CRA performance.

DESCRIPTION OF McCULLOCH COUNTY

BNB has designated all of McCulloch as its AA. Principal communities located in the AA include the City of Brady, and the smaller surrounding communities of Melvin, Voca, Rochelle, and Lohn. Specific demographic data for this area is listed below.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population	
Number of Families	2,411
Number of Households	3,425
Geographies	
Number of Census Tracts/BNA	4
% Low-Income Census Tracts/BNA	0.00
% Moderate-Income Census Tracts/BNA	50.00
% Middle-Income Census Tracts/BNA	25.00
% Upper-Income Census Tracts/BNA	25.00
Median Family Income (MFI)	
1990 MFI for AA	21,829
2001 HUD-Adjusted MFI	35,800
2002 HUD-Adjusted MFI	36,100
Economic Indicators	
Unemployment Rate	2.43
2002 Median Housing Value	38,581
% of Households Below Poverty Level	27.90

This AA is made up of four contiguous block-numbering areas (BNAs), which surround and include the one-bank office located in the City of Brady. This area meets the requirements of the regulation and does not arbitrarily exclude LMI geographies.

Of the four BNAs that comprise McCulloch County, two are designated moderate-income, one middle- and one upper-income. There are no low-income BNAs within the AA. With approximately 6,000 of the county's 8,000 residents, the City of Brady is the most populous BNA. Based on the 1990 census, the City of Brady is located in a moderate-income BNA. The smaller communities of Melvin and Lohn comprise the only other moderate-income BNA in the county. The BNA that includes Voca is designated as a middle-income area, and the BNA surrounding Rochelle is an upper-income area.

Approximately 28% of the families in the AA are considered low-income. Moderate-income families approximate 17% of the population, while middle- and upper-income families comprise the remaining 55%. There are 4,424 housing units in the AA, of which 56% are owner-occupied, 21% renter-occupied, and 23% vacant. Local estimates indicate that 40% of the vacant units are uninhabitable. On average, housing stock is 40-years old. A local appraiser stated that the majority of units currently for sale in the AA range between \$40,000 and \$75,000.

Income data from the 1990 census indicated that the median family income (MFI) for the county was \$21,829. Updated income information from the Department of Housing and Urban Development (HUD) states that the 2002 Texas nonmetropolitan MFI is \$36,100. Major area employers include Brady ISD, Heartland Rig International, Heart of Texas Memorial Hospital and Wal-Mart. Together, these four companies employ approximately 55% of the workforce. Unemployment in the AA has declined steadily over the last ten years and, per the Texas Workforce Commission, is now 4.1%, as compared to the Texas state average of 5.8%. However, gains in employment have been in the lower paying retail and service industries. Employment in higher paying industries such as manufacturing, construction, mining, and agricultural services has remained constant.

In order to gather more current information on the nature of the community and potential lending opportunities in the AA, two community leaders were contacted during the evaluation. One contact was the Housing Manager of the City of Brady Housing Authority. This individual indicated special financing is needed in the community to allow low-income borrowers to afford home purchases. She stated that many of these borrowers are unable to meet down payment requirements of local lenders. Our other contact, a representative of the McCullough County Industrial Foundation (MCIF), also mentioned a potential lending opportunity relating to the usage of government programs as a method of encouraging homeownership in the community. Both community contacts further stated that BNB is active in the community and responsive to the credit needs in the AA.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Management has been successful in meeting the credit needs of its AA, including LMI individuals, consistent with its resources and capabilities.

Loan-to-Deposit Ratio

BNB's LTD ratio is very good, given its asset size, financial condition, and lending opportunities in the AA. Since the last CRA examination, the LTD ratio has increased gradually from 67% at September 30, 1997 to 77% at March 31, 2002. The average LTD ratio over the past 19 quarters was 68%. The average LTD ratio of three similarly situated banks headquartered in the local area was 45% during this same time period. The asset size and LTD ratio for BNB and its competing banks are listed below.

INSTITUTION	ASSETS AS OF 03/30/02	AVERAGE LTD RATIO % (*)
Commercial NB – Brady	82,579	64.14
City NB – San Saba	45,621	25.85
Llano NB – Llano	59,539	45.30
Brady NB	54,495	68.01

The average LTD ratio for all banks is for the period from July 1997 through March 2002 (latest date information was available).

Lending in Assessment Area

A substantial majority of the loans originated by BNB are in its AA. In order to assess performance for these criteria, we reviewed a sample of 80 loans originated within the prior 18-month period. Our sample included 20 home purchase, consumer, commercial, and agricultural loans.

Our analysis determined that 95% of the number and 94% of the dollar amount of 1-4 family residential loans were made within the AA. We further determined that both 80% of the number and dollar amount of consumer loans, and 90% of the number and 96% of the dollar amount of agricultural loans were made within the AA. While 85% of commercial loans originated were in the AA, only 44% of the dollar amount was within the AA. This is attributable to the bank's practice of working with its sister bank, Citizens Bank, NA in Abilene, Texas, to purchase participations in loans that would otherwise not be able to be made by Citizens Bank due to lending limit constraints. The following table provides details by product type.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential	19	95.0	982	94.2	1	5.0	60	5.8
Consumer	16	80.0	182	80.0	4	20.0	45	20.0
Commercial	17	85.0	1,089	44.2	3	15.0	1,373	55.8
Agricultural	18	90.0	1,313	95.7	2	10.0	59	4.3
Total Reviewed	70	87.5%	3,566	69.9%	10	12.5%	1,537	30.1%

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Overall, BNB's loan portfolio reflects a good distribution of mortgage and consumer loans to individuals of various income levels and businesses and farms of different sizes within the AA. In order to assess the bank's performance, a sample of 80 loans originated since the 1997 evaluation were reviewed and data collected was compared to current census demographic criteria.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	28.3		17.3		19.9		34.5	
	% of Number	% of Amount						
Total	10.0	6.3	30.0	12.4	20.0	14.0	40.0	67.3

A sample of 20 mortgage loans was reviewed during this evaluation. The analysis of mortgage loans reflects a distribution of loans to moderate-income families that exceeds area demographics. The distribution of mortgage loans made to low-income families does not appear to meet the characteristics of the AA. Factors contributing to this circumstance include lower priced housing units being quickly purchased by investors for rental purposes and the relatively low supply of affordable homes available in the AA.

BNB, in conjunction with the MCIF and the Brady Economic Development Corporation (BEDC), has been instrumental in bringing qualified affordable LMI housing to the community. In addition to providing assistance in planning and financial counseling, BNB provided initial bridge financing for this project.

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	36.3		13.2		16.1		34.5	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	25.0	5.5	30.0	24.3	10.0	13.4	35.0	56.8

A sample of 20 consumer loans was reviewed during this evaluation. The analysis of consumer loans reflects a distribution of loans to low-income families that is in line with area demographics and level of lending that significantly exceeds the moderate-income demographics.

BNB originates commercial and agricultural-related loans in a manner consistent with area demographics. The bank’s distribution of loans to “small businesses and farms with revenues less than \$1 million” is reflective of BNB’s focus on providing loans that will enhance the local economy. The following charts reflect data from the review of 40 commercial and agricultural-related loans originated between 2001 and 2002.

BORROWER DISTRIBUTION OF LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses³	89.4	10.6
% of Bank Loans in AA #	90.0	10.0
% of Bank Loans in AA \$	87.6	12.4

BORROWER DISTRIBUTION OF FARM LOANS		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses³	100.00	0.00
% of Bank Loans in AA #	95.0	5.0
% of Bank Loans in AA \$	89.4	10.6

Geographic Distribution of Loans

The geographic distribution of loans in BNB’s AA exceeds the standard for satisfactory performance. A review of 20 mortgage-related loans and 20 consumer loans originated in 2001 and 2002 is detailed in the following tables.

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
%of AA Owner Occupied	0.0		73.3		18.0		8.7	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	0.0	0.0	85.0	71.1	10.0	13.6	5.0	15.3

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
%of AA Households	0.0		77.0		16.4		6.6	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	0	0	70.0	58.6	20.0	28.6	10.0	12.8

The geographic distribution of residential loans exceeded area demographic criteria and the distribution of consumer loans was in line with AA demographics.

Responses to Complaints

BNB has received no complaints relating to the bank’s performance under the CRA.

Fair Lending Review

BNB has not been subjected to a Fair Lending review. However, a review of complaint records and consumer files during this evaluation period provided no indication of disparate treatment.